

Report
of the
Examination of
Vision Insurance Plan of America, Inc.
West Allis, Wisconsin
As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Connie L. O'Connell, Commissioner

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October 1, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of the
affairs and financial condition of:

VISION INSURANCE PLAN OF AMERICA, INC.
West Allis, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Vision Insurance Plan of America, Inc., (the LSHO) was conducted in 1995 as of December 31, 1994. The current examination covered the intervening period ending December 31, 2000, and included a review of such 2001 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the LSHO's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the LSHO
- Financial Statements
- Accounts and Records
- Data Processing
- Enrollee Complaint Procedure
- Underwriting

Emphasis was placed on the audit of those areas of the LSHO's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the LSHO to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the LSHO's operations is contained in the examination work papers.

The LSHO is not separately audited by an independent public accounting firm. It is audited as part of the consolidated report of its parent, Vision Twenty-One, Inc.

II. HISTORY AND PLAN OF OPERATION

The Vision Insurance Plan of America, Inc., (VIPA) can be described as a for-profit network model limited service health organization (LSHO). A LSHO is defined by s. 609.01 (3), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the network model, the LSHO provides care through contracts with clinics and otherwise independent physicians operating out of their separate offices. LSHOs compete with traditional fee-for-service health care delivery.

The LSHO was incorporated July 2, 1992, and commenced business December 15, 1992. The LSHO is owned by Vision Twenty-One, Inc., a Florida corporation.

According to its business plan, the LSHO's service area is comprised of all counties in Wisconsin. The LSHO offers a limited range of health care coverage, which may be changed by riders to included deductibles and copayments. The provider contracts contain the following language regarding payment for services:

- A. Provider agrees to look solely to company for payment of covered services furnished to enrolled members under this contract.
- B. Provider agrees to look solely to the enrolled member for payment of services furnished by provider which are not covered services, including applicable copayment.
- C. Company agrees to compensate provider based upon the compensation agreement set forth in (contract) Attachment A.

The referenced Attachment A specifies covered benefits and payment schedules.

The company provides subscriber-group member enrollees with covered vision care services through a contract with one provider group. Services are rendered by individual optometrist practitioners who are members of the provider group. An enrollee may designate one of the Vision Insurance Plan of America, Inc. (VIPA) affiliated optometrists to provide the enrollee's vision care, but such enrollee designation of a primary care provider is not mandatory.

The provider group agrees to provide covered vision care benefits in exchange for the monthly compensation paid to the group by VIPA for each assigned enrollee.

All VIPA providers enter into a provider agreement with Vision Twenty-One, Inc. (V21) governing services provided to subscriber enrollees. Each provider agreement remains in force from date of execution without reference to a fixed contract term, until terminated under contract provisions. The agreement may be terminated by either party by written notice at least 90 days prior to the intended effective date of termination. Termination may also occur, in the event of material breach by one party, following 60 days' written notice of the breach by the nonbreaching party if the breach remains uncured. The agreement is terminated in the event of revocation of the company's certificate of authority, or upon final administrative order suspending or revoking the license of either party. The contracts do not include hold-harmless provisions for the protection of policyholders. A list of participating providers is included in Exhibit A.

VIPA offers eligible employees and dependents of subscriber groups the following basic vision care covered services delivered by VIPA providers:

- A. Vision examinations can be for 12 months, 24 months, or a combination of both depending on the plan that the group selects.
- B. Frame and contact lens allowance varies depending on the plan that the group selects.
- C. Lenses (including single vision, bifocal, and trifocal) every 12 months provided there is a prescription change necessitating new lenses.

This may be changed by riders to include deductibles and copayments, as per the individual agreements. The company issues one vision services policy and had 569 subscriber groups as of December 31, 2000.

If services are delivered by vision care practitioners other than V21 providers, the company provides payment for the above-listed covered services, subject to specified maximum covered payment limits. Payment is also provided for services delivered by non-V21 providers outside the company's geographic service area, with decreased covered payment limits.

Participating providers agree to arrange for the delivery of covered services to any eligible enrolled member, at the same level, scope, and quality of care provided to all other

patients of the provider. In nonemergency cases services are rendered upon written or verbal referral by the company. In cases of emergency the provider agrees to notify the company within 24 hours after provision of covered services.

The LSHO currently markets to groups only. The LSHO uses outside agencies and pays a standard 5% commission on most new and renewal business. Some exceptions of up to 15% exist.

VIPA premium rates charged and capitation rates paid are developed by VIPA management based on analysis of market factors. The capitation rates are reviewed by VIPA and V21 management for reasonableness and are adjusted as deemed necessary.

The LSHO uses an actuarially determined base as a beginning point in premium determination. Experience is reviewed for renewal groups and, based on the review, a recommendation is made regarding adjusting the rate or canceling the group. The base rate is adjusted no more often than annually for inflation and other trending factors.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of two members. Two directors are elected annually to serve a one-year term. Officers for the board are elected at the board's annual meeting.

Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently do not receive compensation for serving on the board of the company, however they are compensated by the parent corporation V21.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Mark Gordon O.D Baltimore, MD	CEO of Vision Twenty-One, Inc.	2001
Andrew Alcorn Chatham, NJ (Resigned during 2001)	President of Vision Twenty-One, Inc.	2001
Richard Jones	CFO of Vision Twenty-One, Inc.	2001

Officers of the LSHO

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	2000 Compensation
Thomas Witter	President	\$94,998
Ellen Gordon	Secretary	175,000*
Richard Jones	Treasurer	175,000*

* The officer is compensated by V21

Committees of the Board

The LSHO's bylaws allow for the formation of certain committees by the board of directors, however there were no committees at the time of the examination.

The LSHO employs and pays its own employees. V21 administers the LSHO's payroll and is reimbursed by the LSHO for such administration (see summary of current examination results).

Financial Requirements

The financial requirements for an LSHO under s. Ins 9.04, Wis. Adm. Code, are as follows:

	Amount Required
1. Minimum capital or permanent surplus	Not less than \$75,000
2. Security deposit	Each LSHO is required to maintain a deposit of securities with the state treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than \$75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the LSHO.
3. Compulsory surplus	Not less than the greater of: 3% of the premiums earned by the LSHO in the previous 12 months or \$75,000 The Commissioner may accept the deposit or letter of credit under par. 2. to satisfy the compulsory surplus requirement if the LSHO demonstrates to the satisfaction of the Commissioner that all risk for loss has been transferred to the providers.
4. Security surplus	The LSHO should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of compulsory surplus.
5. Operating funds	Funds sufficient to finance any operating deficits in the business and to prevent impairment of the insurer's initial capital or permanent surplus or its compulsory surplus.

An LSHO, which provides hospital services, must demonstrate that, in the event of insolvency, enrollees hospitalized on the date of insolvency will be covered until discharge. This does not apply to this LSHO.

The LSHO is provided with corporate insurance coverage under the contracts listed below:

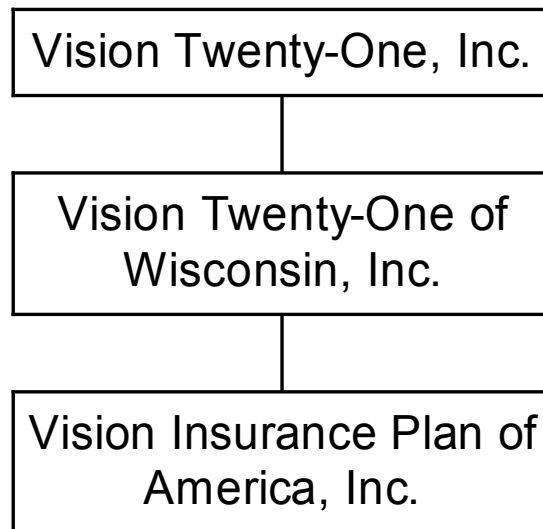
Type of Coverage	Policy Limits
Directors' and officers' liability	\$10,000,000
Professional liability	1,000,000
Fidelity Bond	1,000,000

The above coverages are issued to the company's parent V21, with Vision Insurance Plan of America as a listed insured.

IV. AFFILIATED COMPANIES

Vision Insurance Plan of America, Inc., is a member of a holding company system. Its ultimate parent is Vision Twenty-One, Inc. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of VIPA follows the organizational chart.

**Holding Company Chart
As of December 31, 2000**



Vision Twenty-One, Inc.

V21's business focuses on administrative services to manage care entities. As of December 31, 2000, Vision Twenty-One, Inc. audited financial statements reported assets of \$55,651,845, liabilities of \$79,224,565, and stockholders' equity of \$(23,572,720). Operations for 2000 produced a net loss of \$17,061,582 on revenues of \$52,829,551.

Vision Twenty-One of Wisconsin, Inc.

Vision Twenty-One of Wisconsin, Inc. is a wholly owned subsidiary of Vision Twenty-One, Inc. the ultimate parent. The company was established for the sole purpose of helping V21 purchase VIPA during 1998.

Affiliated Agreements

VIPA currently has an administrative service agreement with V21 and Block Vision, Inc. Under this agreement V21 and Block Vision, Inc. provide administrative services for the

company's prepaid vision plan and the effective administration of the optometric provider networks. Some of these services include financial systems and services, provider and subscriber complaint resolution procedures, benefit administration, and encounter data reporting in such format and at such frequencies as shall be mutually agreed, including any record keeping required to effectively perform such services. Block Vision, Inc. also performs these services for V21 listed above and provides for payment of optometrist provider claims. In order to facilitate payment of optometrist provider claims, V21 authorizes the company to pay Block Vision, Inc. the capitation payments required to be paid to the V21 pursuant to the Provider Service Agreement. Block Vision, Inc. also makes its network of providers available to the company to provide services to the enrollees. The contract contemplates VIPA paying a per member/per month fee as compensation for these services. This is discussed further in the section of this report captioned "Summary Of Examination Results."

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the LSHO as reported in the December 31, 2000, annual statement to the commissioner of insurance. Also included in this section are schedules, which reflect the growth of the LSHO for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."

Vision Insurance Plan of America, Inc.
Assets
As of December 31, 2000

Current Assets:

Cash	\$275,347	
Short-term investments	50,000	
Amounts due from affiliates	56,948	
Health Care Receivables	<u>82,767</u>	
Total current assets		\$465,062

Property and Equipment--Net:

Furniture and equipment	23,579	
Electronic data processing equipment and software	<u>50,585</u>	
Total property and equipment		<u>74,164</u>

Total Assets		<u>\$539,226</u>
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Vision Insurance Plan of America, Inc.
Liabilities and Net Worth
As of December 31, 2000

Current Liabilities:

Premiums received in advance	\$ 43,888	
General expenses due or accrued	44,107	
Accrued Payroll	7,080	
Accrued Vacation	15,115	
Accrued CMHD	<u>1,455</u>	
Total current liabilities		\$111,645
 Total Liabilities		 111,645

Net Worth:

Paid-in and contributed surplus	24,950	
Unassigned funds (surplus)	<u>\$402,631</u>	
Total net worth		<u>427,581</u>
 Total Liabilities and Net Worth		 <u>\$539,226</u>

**Vision Insurance Plan of America, Inc.
Statement of Revenue and Expenses
For the Year 2000**

Revenues

Premium	\$ <u>2,755,103</u>	
Total revenue		\$2,755,103

Provider Expenses

Professional services	\$1,519,621	
Administrative Fee	<u>25,752</u>	
Subtotal		1,545,373

Administrative Expenses:

General administrative expenses	<u>886,452</u>	
Total administrative expenses		<u>886,452</u>

Total expenses		<u>2,431,825</u>
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Income/(loss)		323,278
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Net investment gains or (losses)		<u>2,711</u>
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Net Income/(Loss)		<u>\$ 325,989</u>
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Vision Insurance Plan of America, Inc.
Statement of Net Worth
As of December 31, 2000

Net worth, beginning of year	\$101,592
Net income (loss)	<u>325,989</u>
Net worth, end of year	<u>\$427,581</u>

Growth of LSHO

The following schedules reflect the growth of the LSHO during the examination

period:

Year	Assets	Liabilities	Net Worth	Premium Earned	Medical Expenses Incurred	Net Income
1995	\$ 51,579	\$ 81,888	\$ (30,309)	\$ 467,363	\$ 361,977	\$ 23,438
1996	90,293	65,475	24,818	571,606	454,225	55,127
1997	133,062	78,813	54,249	710,876	426,855	26,931
1998	222,708	122,129	100,579	1,011,033	594,743	46,330
1999	186,538	84,946	101,592	1,578,994	946,286	1,013
2000	539,226	111,645	427,581	2,755,103	1,545,373	323,278

Enrollment for the years under examination:

Year	Members
1995	27,240
1996	17,472
1997	11,081
1998	18,975
1999	30,243
2000	37,226

Net income decreased from 1998 to 1999 due to an increase in administrative expenses caused by VIPA paying expenses in 1999 that were paid by Block Vision in 1998. Also net income increased from 1999 to 2000 due to premium rate and enrollment increases, which contributed to sales revenue increasing. Premium Earned and Medical Expenses Incurred have been increasing steadily due to the company pursuing more groups and the increase in billings.

Reconciliation of Net Worth per Examination

The following schedule is a reconciliation of net worth between that reported by the LSHO and as determined by this examination:

Net worth December 31, 2000, per annual statement			\$427,581
	Increase	Decrease	
Premium Receivable	\$	\$51,641	
Due From Affiliate		<u>56,948</u>	
Net increase or (decrease)	<u>\$</u>	<u>\$108,589</u>	<u>108,589</u>
Net worth December 31, 2000, per examination			<u>\$318,992</u>

Examination Reclassifications

	Debit	Credit
Health Care Receivable	\$	\$82,767
Premium Receivable	<u>82,767</u>	<u></u>
Total reclassifications	<u>\$82,767</u>	<u>\$82,767</u>

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were twenty-two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the LSHO are as follows:

1. Business Plan—It is recommended that the company file with the Commissioner of Insurance all amendments and modifications to its business plan in compliance with s. Ins 3.52 (6), Wis. Adm. Code.

Action—Noncompliance, see comments in the summary of current examination results. The Wis. Adm. Code changed to 9.06 (1)
2. Financial Reporting—It is recommended that the company fully report its financial affairs by completing all information and disclosure items required on the appropriate annual statement blank in conformity with the NAIC annual statement instructions.

Action—Partial Compliance, see comments in the summary of current examination results.
3. Conflict of Interest—It is recommended that the company adopt a system for conflict of interest disclosure, that conflict of interest questionnaires be completed annually by officers, directors, and key employees, and that completed disclosure forms be retained in company's records from examination.

Action—Noncompliance, see comments in the summary of current examination results.
4. Management and Control—It is recommended that the company file an amendment to Article V of the company's articles of incorporation, location of corporate office.

Action—Noncompliance, see comments in the summary of current examination results.
5. Management and Control—It is recommended that the company hold its annual meetings in accordance with its bylaws, Article II, Section 2.01.

Action—Noncompliance, see comments in the summary of current examination results.
6. Management and Control—It is recommended that the directors be elected to the board of directors on an annual basis at the company's annual meeting in conformity with the company bylaws and with s. 611.52 (a), Wis. Stat.

Action—Noncompliance see comments in the summary of current examination results.
7. Management and Control—It is recommended that the company amend in agreement with Eye Care to reflect the proper capitation amounts for the various subscriber groups.

Action—Compliance
8. Management and Control—It is recommended that the company monitor Eye Care One as to obtaining written agreements with all of the subcontracted providers.

Action—Compliance

9. Management and Control—It is recommended that the company execute a consulting agreement between Eye Care One and the LSHO for the bidding of contracts.
- Action—No longer applicable.
10. Management and Control—It is recommended that there be a cost-sharing agreement with affiliates (IPA, etc.) for allocation and for sharing of expenses.
- Action—Noncompliance, see comments in the summary of current examination results.
11. Cash—It is recommended that the company comply with ch. 177, Wis. Stat., as regards unclaimed funds and that a liability for unclaimed funds be established in future statutory annual statements to account for all checks outstanding for over one year.
- Action—Partial Compliance, see comments in the summary of current examination results.
12. Cash—It is recommended that checks be stamped and deposited when received and that any checks or cash in the company's office be listed in the annual statements.
- Action—Noncompliance, see comments in the summary of current examination results.
13. Cash—It is recommended that checks have two original signatures on checks above a specified amount and that all disbursements have approval with initials and date.
- Action—No longer applicable.
14. Insurance Coverage—It is recommended that the company attain directors' and officers' liability plus fidelity insurance coverages to protect the assets of the company property.
- Action—Compliance.
15. Accounts and Records—It is recommended that the company include the date of the transaction in the general ledger.
- Action—Compliance
16. Accounts and Records—It is recommended that the company include the date of the check on the check register.
- Action—Compliance
17. Accounts and Records—It is recommended that the company maintain a copy of the monthly premium billings for all groups.
- Action—Compliance
18. Furniture and Equipment—It is recommended that the company maintain the invoices and depreciation schedule for furniture and equipment including EDP.
- Action—Compliance
19. Premium Receivable—It is recommended that the company follow annual statement instructions by establishing premiums receivable for amounts not paid and completing Schedule C.
- Action—No longer applicable.

20. Advance Premiums—It is recommended that the company establish a liability for premium received in advance.

Action—Compliance

21. Claims Payable—It is recommended that the company not pay claims for contracts that are on a capitation basis; the capitation should be paid to the provider and the provider should be paying the claims to the subcontractors.

Action—Compliance

22. Claims Payable—It is recommended that the company be prompt in the billings for ASO (service fees), establish a receivable on the annual statement, and book appropriate receivable.

Action—No longer applicable.

Summary of Current Examination Results

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflict or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has not adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were available for review for only one year for the period under examination. It is again recommended that the company adopt a system for conflict of interest disclosure, that conflict of interest questionnaires be completed annually by officers, directors, and key employees, and that completed disclosure forms be retained in company records from examination to examination.

Management and Control

The company's articles of incorporation and bylaws were reviewed for compliance with the rules and regulations of the state of Wisconsin. It was noted that the company had not filed any amendments to its bylaws and articles of incorporation.

The company has notified OCI of a change of address for its registered office of the corporation, but did not file an amendment to the company's articles of incorporation. It is again recommended that the company file an amendment to Article V of the company's articles of incorporation, location of corporate offices.

It also should be noted that the company amended its bylaws during the period under examination. During the company's annual meeting Section 3.02 was amended to state that the company will have at least two, but no more than five directors on the board. The company did not file this amendment with the OCI. It is recommended that the company file any amendments to its bylaws with the commissioner pursuant to s. Ins 611.12 (4) Wis. Stat.

Article II, Section 2.01 of the company's bylaws states that the annual meeting of the shareholders shall be held within 90 days after the close of the corporation's fiscal year, at such time and date as determined by the corporation's board of directors, for the purpose of electing

directors and for the transaction of such other business as may come before the meeting. During the review of the minutes of the board of directors it was noted the company was not holding its annual meetings in accordance with its bylaws. It is again recommended that the company hold its annual meeting in accordance with its bylaws. Also during the review of the minutes of the board of directors it was noted that the directors and officers were not being elected annually in accordance with the company's bylaws. It is again recommended that directors be elected to the board of directors on an annual basis at the company's annual meeting as required by the company bylaws and s. 611.52 (2), Wis. Stat. When the examiner reviewed the minutes of the annual meeting it was noted that the company was not recording the attendance. Therefore the examiner could not determine whether a quorum was present for the annual meeting. The company's bylaws provide that the voting group may take action on matters at a meeting only if a quorum of shares exists. It is recommended that the company document in the minutes whether a quorum of directors is present as required by s. 611.51 (9), Wis. Stat.

It was noted that the directors and officers had changed from the prior examination. The company did not send in the required biographical data regarding its directors and officers to OCI when the change took place. It is recommended that the company file its biographical data relating to company officers and directors in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

Affiliated Companies

It was noted during the examination that Vision Insurance Plan of America, Inc. did not file Form B and Form C which was due to the Office Of The Commissioner Of Insurance June 1, 2001 for the year of 2000. Form B is a registration statement that lists the ultimate controlling person in the insurance holding company system. This form also includes biographical information of the controlling person, transaction or agreements, and any litigation proceedings. This filing also needs to include the controlling persons financial statements. Form C consists of a brief description of all items in the annual registration statement. This form should make specific references to item numbers in the annual registration statement and the terms contained

therein. It is recommended that the company file the required information on Form B and on Form C pursuant to s. 617.11, Wis. Stat. and s. Ins 40.15 Wis. Adm. Code.

Business Plan

The company was initially granted a certificate of incorporation and authority on the basis of a business plan filed with and approved by OCI. Business plan requirements for a limited service health organization such as Vision Insurance Plan of America are provided in s. Ins 9.05, Wis. Adm. Code. OCI evaluates the business plan to determine that the company organization, capitalization, and operations will conform to applicable statutes and rules and serve the public interest.

An LSHO's business plan includes its bylaws, articles of incorporation, the forms to be used for any contracts between the corporation and its members or other persons concerning the provision of services to insureds, marketing methods, and other relevant documents or information required by the Commissioner. As provided in s. Ins 9.06 (1) Wis. Adm. Code, all substantial changes, alterations, or amendments to the business plan must be filed with the Commissioner at least 30 days prior to their effective date, and are subject to disapproval by the Commissioner.

Examination review disclosed modifications to the company's business plan during the years under review that were not filed with the Commissioner of Insurance. The parent company, V21, is performing services such as accounts payable and payroll for the company. V21 also maintains the company general ledger. VIPA reimburses V21 for these services. However there is no administrative service agreement for these services being provided and the company did not file any changes in its business plan with the Commissioner of Insurance. It is again recommended that the company file with the Commissioner of Insurance all amendments and modifications to its business plan in compliance with s. Ins 9.06 (1), Wis. Adm. Code.

Affiliated Agreements

The company has an administrative service agreement with V21 and Block Vision, Inc. During the course of the examination, it was noted that the company was no longer following this written agreement. Currently the company is paying optometrist provider claims in addition to

paying V21 capitation payments. V21 reimburses VIPA for claims paid. The contract calls for capitation payments to Block Vision, with Block Vision being liable for provider claims. Also it was noted during the course of the examination that the company and V21 were sharing expenses such as accounts payable and payroll with no written agreement in place. It is again recommended that there be a cost-sharing agreement with affiliates (IPA, etc.) for allocation and/or sharing of expenses.

The company has a provider service agreement with V21. Under this agreement, V21 agrees to provide coverage at no additional cost in exchange for 55% of the company's premium and further agrees not to bill the enrollee for such coverage. However it was noted during the examination that the company was not following the agreement. The company has been paying claims on behalf of V21, and then V21 reimburses the company for the claim costs. According to the company, capitation payments are only a book entry – no money is exchanged. Management represented that the neither company settles the capitation payments until one of the companies go out of business. The company does not settle balances on a monthly basis as required by contract. It is recommended that the company either follow the provider service agreement or amend the agreement within 90 days of the adoption of this report pursuant to s. Ins 9.06 Wis. Adm. Code. Management should note that amendments to the provider agreement may need to be filed as an amendment to the business plan as discussed previously.

During the review of the provider agreements the examiner noted that some of these agreements were executed by Eye Care One Corp. and the provider. However Vision Twenty-One Inc. merged with Eye Care One in March of 1998. It is recommended that the company have the current legal name of the company on all executed agreements or provide evidence that the rights under the contracts have been assigned to the company. It also should be noted that the provider service agreement with V21 did not include a hold harmless clause. A hold harmless clause prohibits providers from recovering covered health care costs from enrollees and policyholders. LSHOs have lower capital and surplus requirements because all risk is transferred to providers through capitation and hold-harmless provisions. Section Ins 51.80 (7) Wis. Adm. Code allows the Commissioner to raise a company's capital and surplus requirements based on

individual circumstances. The failure to have adequate hold-harmless arrangements with providers would be one such circumstance. It is recommended that the company include a hold harmless clause in their provider service agreement with its affiliate. Failure to do so could result in an increased capital and surplus requirement.

Corporate Records

It was noted that the company did not have signatures on some of its provider agreements and group contracts. It also was noted that the company did not have an executed provider agreement with one of its providers. It is recommended that the company maintain copies of properly executed provider agreements and group contracts. Management should document instances where employers refuse to sign group contracts.

Budget

The company was unable to provide copies of budgets developed for its operations. Budgets should be prepared by management annually for approval by the board of directors, then be made part of the minutes of the meeting at which they were approved. It is recommended that the company formally approve and maintain budgets for future years.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employee, loses company records, or the office building was destroyed, to name a few contingencies. The company does not have a formal developed disaster recovery plan. The company does backup its network daily and is stored off-site. However the company does not have any procedures if a key employee was lost. It is recommended that the company establish a disaster recovery plan that will identify steps to be taken in case the company loses a key employee or loses access to company records for any reason.

Cash

Pursuant to ch. 177, Wis. Stat., Wisconsin companies are required to report and submit abandoned property to the state of Wisconsin. The company has no procedures or policies established to assure compliance with this requirement. A review of the company's outstanding checks disclosed that no checks were old enough to report as abandoned property.

However, the company should establish a liability for any checks that are over one-year old. It is recommended that the company establish procedures for unclaimed funds in regards to ch. 177, Wis. Stat.

Currently most of the company premium payments are sent to a lockbox at a bank. However, some checks are still sent to the company; these checks are supposed to be stamped and endorsed when received. However, it was noted during testing that some checks were not stamped "for deposit only" the date they were received and the company did not deposit the checks to the bank the same day. These checks were kept in an office that is not locked and were not deposited until the end of the week. This is a deficiency in internal controls as the checks could be stolen and cashed by a third party. It is recommended that checks be stamped immediately when received and held in a secure location until they are deposited.

Accounts and Records

During the examination it was noted that the company had not retained certain records as required by s. Ins 6.80 (4), Wis. Adm. Code. The following is a list of some items that the company could not produce or did not maintain:

- The company could not provide any information previous to 2001 regarding cash procedures. The company must maintain its accounting records for the greater of three years or until the time of the next financial examination conducted by the Office of the Commissioner of Insurance.
- The examination determined that an officer owns a small portion of the company. The company could not produce a copy of the stock certificate showing ownership. A copy of the stock certificate or a stock register must be maintained as a permanent record.
- The company could not produce two group applications. These applications must be retained as long as the related insurance coverage remains in force.

It is recommended that the company retain its records for the time periods specified and as required by s. Ins 6.80 (4) Wis. Adm. Code.

Claims

During claims testing the examiner recalculated the claim payments to the providers. A few exceptions were noted during this testing. It was noted during the examination that the system that handles claims was overpaying the providers. Individually these exceptions were below materiality, however they could become material over time. This would not be an issue if the company were making capitation payments as required by contract. It is recommended that the company develop procedures to periodically check the claims system to ensure proper reimbursements.

Underwriting

It was determined that the company does not maintain an active agent list. The company's system, GoldMine, contains a field for the name of each individual agent, but management was unable to produce a list of all of the agents in the system. It is recommended that the company maintain an active agent list. It was also noted that the company does not have formal written agreements with any of its agents or agencies. It is recommended that the company execute contracts with all of its agents and agencies.

During the examination it was noted that one of the company's agents was licensed in the state of Wisconsin, but was not licensed to sell the company's product. It is recommended that the company discontinue accepting business directly from any intermediary that is not a licensed agent listed with the company pursuant to s. Ins 6.57 (5), Wis. Adm. Code.

During the review of the company's benefit packets it was noted that company did not include a notice regarding confidentiality of medical records. It is recommended that the company provide notice to individuals about its privacy policies and practices and describe the conditions under which the company may disclose nonpublic personal health information and nonpublic personal financial information about individuals to affiliates and non-affiliated third parties pursuant to s. Ins 25.02 (a) and (b) Wis. Adm. Code.

Premium Receivable

The company has a premium receivable of \$82,767, which is listed as a health care receivable on the annual statement. Annual statement instructions require it to be reported on

the line for premium receivable. It also was noted during the examination that the company was not completing Schedule F properly. Some of the premium receivable balances were not aged correctly. The company listed all the premium receivable balances as being thirty days or less on the annual statement. However the examiner determined that some balances were sixty days or older. It is noted that statutory accounting principles, effective January 1, 2001, require any balance over 90 days be nonadmitted. It is recommended that the company report its premium receivable on the correct line on the annual statement in accordance with the NAIC Annual Statement Instructions. It is further recommended that the company age premium receivable balances in accordance with the NAIC Annual Statement Instructions.

During the examination it was noted that the company could not prove the balances listed in the premium receivable account. The company does not have the documentation to back up these balances listed in the premium receivable. Therefore the examiner is writing down \$51,641 of this premium receivable. This write-down is reflected in the section of this report captioned "Reconciliation of Net Worth per Examination." It was also noted during the examination that the company's billing system has some deficiencies. The billing system that the company uses is called FoxPro. It lists all the groups that the company has and can provide group member history, however the system is unable to provide payment history for the group. Because of this the company has a spreadsheet that keeps track of the payments that the groups make. The payments are recorded on this spreadsheet maintained by company personnel. However no payment history is maintained by group. It is recommended that the company improve its billing system to include payment histories by group.

Due From Affiliate

The company was unable to provide adequate documentation to verify the Due From Affiliate asset balance. Therefore the examination is writing down the balance of \$56,948 from the Due From Affiliate account. This write-down is reflected in the section of this report captioned "Reconciliation of Net Worth per Examination."

Financial Reporting

Examination review determined that the year-end financial report was incomplete, with one schedule unreported by the company. The Commissioner of Insurance requires that all insurers file complete financial data to inform the public regarding the insurer's financial condition and to inform and facilitate the regulatory activities of OCI. It is again recommended that the company fully report its financial affairs by completing all information and disclosure items required on the annual statement in conformity with NAIC Annual Statement Instructions. It was also noted that the company did not fill out the General Interrogatories and Notes to the Financial Statements correctly per the annual statement instructions. The company incorrectly completed an interrogatory regarding the company's insurance coverage. The Notes to the Financial Statements did not include the section titled "Information Concerning Parent, Subsidiaries and Affiliates." In this section the company is required to list the transactions between the parent and the company. All service contracts and cost sharing arrangements should be included and described under this section. It is recommended that the company properly fill out the General Interrogatories and Notes to the Financial Statements per the NAIC Annual Statement Instructions.

CPA Audit

The independent audit requirement of s. Ins 50.05, Wis. Adm. Code, has been waived in the past for VIPA. Due to the numerous examination findings it was determined that the company would benefit from an independent audit. It is recommended that the company obtain an audit by an independent certified public accountant on an annual basis and file an audited financial report as required by s. Ins 50.05, Wis. Adm. Code for future years. If necessary the company may request an extension for filing the CPA audit report for the audit report due in 2002.

VIII. CONCLUSION

The examiner's review of the company's accounts led to two adjustments, decreasing surplus \$108,589. Surplus, after adjustments, is \$318,992. There was one reclassification made due to the company not following annual statement instructions.

The prior examination resulted in twenty-two financial recommendations. The company did not comply with eight and partially complied with two of the recommendations. The current examination resulted in thirty recommendations, the majority of which pertained to management and control. Most of the deficiencies identified in this report related to lack of familiarity with applicable regulatory requirements for LSHO insurers. The company will be required to have an independent audit in future years due to the deficiencies noted.

The LSHO's letter of credit meets the capital and compulsory surplus requirements. The company has a positive net worth, which has increased steadily over the last six years. The company's member enrollment decreased from 1995, but has been increasing since 1998. For year-end 2000 member enrollment was 37,226 which represents an increase of 37% from 1995.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - Conflict of Interest—It is again recommended that the company adopt a system for conflict of interest disclosure, that conflict of interest questionnaires be completed annually by officers, directors, and key employees, and that completed disclosure forms be retained in company records from examination to examination.
2. Page 22 - Management and Control—It is again recommended that the company file an amendment to Article V of the company's articles of incorporation, location of corporate offices.
3. Page 22 - Management and Control—It is recommended that the company file any amendments to its bylaws with the commissioner pursuant to s. Ins 611.12 (4) Wis.Stat.
4. Page 23 - Management and Control—It is again recommended that the company hold its annual meeting in accordance with its bylaws.
5. Page 23 - Management and Control—It is again recommended that directors be elected to the board of directors on an annual basis at the company's annual meeting as required by the company bylaws and s. 611.52 (a), Wis. Stat.
6. Page 23 - Management and Control—It is recommended that the company document in the minutes whether a quorum of directors is present as required by s. 611.51 (9), Wis. Stat.
7. Page 23 - Management and Control—It is recommended that the company file its biographical data relating to company officers and directors in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.
8. Page 24 - Affiliated Companies—It is recommended that the company file the required information on Form B and on Form C pursuant to s. Ins 617.11, Wis. Stat. and 40.15 Wis. Adm. Code.
9. Page 24 - Business Plan—It is again recommended that the company file with the Commissioner of Insurance all amendments and modifications to its business plan in compliance with s. Ins 9.06 (1), Wis. Adm. Code.
10. Page 25 - Affiliated Agreements—It is again recommended that there be a cost-sharing agreement with affiliates (IPA etc.) for allocation and/or sharing of expenses.
11. Page 25 - Affiliated Agreements—It is recommended that the company either follow the provider service agreement or amend the agreement within 90 days of the adoption of this report pursuant to s. Ins 9.06 Wis. Adm. Code.
12. Page 25 - Affiliated Agreements—It is recommended that the company have the current legal name of the company on all executed agreements or provide evidence that the rights under the contracts have been assigned to the company.
13. Page 26 - Affiliated Agreements—It is recommended that the company include a hold harmless clause in their provider service agreement with its affiliate.
14. Page 26 - Corporate Records—It is recommended that the company maintain copies of properly executed provider agreements and group contracts.

15. Page 26 - Budget—It is recommended that the company formally approve and maintain budgets for future years.
16. Page 26 - Disaster Recovery Plan—It is recommended that the company establish a disaster recovery plan that will identify steps to be taken in case the company loses a key employee or loses access to company records for any reason.
17. Page 27 - Cash—It is recommended that the company establish procedures for unclaimed funds in regards to ch. 177, Wis. Stat.
18. Page 27 - Cash—It is recommended that checks be stamped immediately when received and held in a secure location until they are deposited.
19. Page 27 - Accounts and Records—It is recommended that the company retain its records for the time periods specified and as required by s. Ins 6.80 (4) Wis. Adm. Code.
20. Page 28 - Claims—It is recommended that the company develop procedures to periodically check the claims system to ensure proper reimbursements.
21. Page 28 - Underwriting—It is recommended that the company maintain an active agent list.
22. Page 28 - Underwriting—It is recommended that the company execute contracts with all of its agents and agencies.
23. Page 28 - Underwriting—It is recommended that the company discontinue accepting business directly from any intermediary that is not a licensed agent listed with the company pursuant s. Ins 6.57 (5), Wis. Adm. Code.
24. Page 28 - Underwriting—It is recommended that the company provide notice to individuals about its privacy policies and practices and describes the conditions under which the company may disclose nonpublic personal health information and nonpublic personal financial information about individuals to affiliates and non-affiliated third parties pursuant to s. Ins 25.02 (a) and (b), Wis. Adm. Code.
25. Page 29 - Premium Receivable—It is recommended that the company report its premium receivable on the correct line on the annual statement in accordance with the NAIC Annual Statement Instructions.
26. Page 29 - Premium Receivable—It is further recommended that the company age premium receivable balances in state accordance with the NAIC Annual Statement Instructions.
27. Page 29 - Premium Receivable—It is recommended that the company improve its billing system to include payment histories by group.
28. Page 29 - Financial Reporting—It is again recommended that the company fully report its financial affairs by completing all information and disclosure items required on the annual statement in conformity with NAIC Annual Statement Instructions.
29. Page 30 - Financial Reporting—It is recommended that the company properly fill out the General Interrogatories and Notes to the Financial Statements per the NAIC Annual Statement Instructions.

30. Page 30 - CPA Audit—It is recommended that the company obtain an audit by an independent certified public accountant on an annual basis and file an audited financial report as required by s. Ins 50.05, Wis. Adm. Code for future years.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the LSHO are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Sonja Dedrick	Insurance Financial Examiner

Respectfully submitted,

Lori Cretney
Examiner-in-Charge

EXHIBIT A -Participating Providers

The LSHO currently contracts with the following participating providers in Wisconsin:

Providers	Number of Locations	Providers	Number of Locations
Advance Eye Care	1	Kind Optical	1
Allen Eye Care Assoc., S.C.	1	Kindy Optical	1
Badger Optical	2	Knight Vision & Glaucoma Specialists	1
Badger Optical of Mayfair	1	Koskinen Eye Clinic	1
Badger Optical Of Sheboygan	1	Lincoln Park Optical	1
Beaver Dam Eyecare	1	Lindman Eye Care	2
Beaver Dam Eye Clinic	1	Madison Optometric	1
Center Optical	2	Mancheski Vision Clinic	1
Cesarz, Nassif & Associates	1	Matus Eyecare, S.C.	1
Community Eyecare, Inc.	1	Mayfair Optical	1
Contact Lens & Optical Center, Inc.	1	Mayville Vision Center, S.C.	1
Dean & Fletcher	1	Milton Vision Center	1
D.O.C. Eye Care of Southridge	1	Milwaukee Eye Care Associates	3
D.O.C. Optical	4	Minocqua Eyes Vision Center	1
Dr. Daniel's Eyecare Place	1	Mondovi Optometric Clinic	1
Dr. Savin & Associates	1	Myers Eyecare	3
Eagle River Vision Center	2	Neovision	1
East Towne Optical	1	North Avenue Vision Center	1
Edgerton Vision Center	1	Opti Eyewear	1
Edward Tomasik & Associates	2	Optical Consultants, Inc.	2
Eye Associates	1	Optomology Associates	2
Eye Care Associates of Baraboo	1	Osseo Optical	1
Eye Care Center of Marshfield	1	Ozaukee Eye Care Clinic	1
Eye Care Centers Of Two Rivers	2	Pavillion Vision Center	1
Eye Care Optical	1	Pearle Vision	2
Eye Care Professionals of Cudahy	1	Pioneer Optical	1
Eye Care Specialists	1	Plaza Optical	1
Eye Care Vision Center	1	Primary Eyecare Clinic	1
Eye Clinic of Manitowoc, S.C.	3	Salem Vision Center	1
Eye Deal Optical	1	Schaefer & Associates	1
Eyeglass World	2	Shopko Optical	43
Eyemart Express	5	Signature Eyecare	1
Eye Physician Associates	4	Solberg Eye Care	1
Eye Physicians of Watertown	1	Stein Optical	16
Eye Site	1	Stein Optical – Brookfield Plaza	1
Eyeware Express	1	Stein Optical – Northridge Mall	1
Eyewear Express	1	Stein Optical – Southridge Mall	1
Eyeworks of Beloit Inc.	1	Sterling Optical	24
Eye Works, Inc.	1	Sterling/Kindy Optical	1
Eyes For You	2	Summit Eye Clinic	2
Faces Eyewear	1	Suson Eye Specialists	3
Falls Eye Care	1	Sussex Eyecare Center	1
Family Eye Clinic	1	The Sight Center	3
Family Vision Care	1	Tower Optical	1
Family Vision Center	1	Tory Optical	1
Family Vision & Contact Lens Center	1	Trendsetters Optical Gallery	3
Fluegge Optical Inc.	1	20/20 Vision	1
Forest County Potawatomi Health Department	1	27 th Street Optical	1
Forsythe & Forsythe	1	Valley Vision Clinic	1
Fredonia Vision Center	2	Victory Opticians	1
Herslof Opticians	32	Vision Mart	8
Horicon Eye Clinic	2	Vision World	1
Howard Vision Clinic	1	Vision World – Kenosha	1
Hudson Optical	1	Vision World – Valley View Mall	3
Jacobson Eye Clinic	1	Waupun Eye Clinic	2
Jacobson Eye Health Care Clinic	1	Wautoma Eye Clinic, S.C.	2
Jan's Optical	1	West Bend Optical	1
Kenosha Vision And Hearing	1	Wisconsin Vision, Inc.	37